

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 DOE-11 H-01 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02

SS-15 STR-06 TRSE-00 ACDA-12 /113 W

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C O N F I D E N T I A L CARACAS 0661

E.O. 11652: GDS

TAGS: ENRG, EINV, VE

SUBJECT: OIL COMPANY PROBLEMS - SUN

REF: CARACAS 223

1. SUMMARY. VISITING SUN OIL OFFICIALS WERE WARMLY RECEIVED BY THE GOV AND ARE PLEASED WITH THE NEW TECHNICAL SERVICES CONTRACT SIGNED THIS WEEK. THEY EXPRESSED DOUBTS THAT A SATISFACTORY SETTLEMENT OF THE PENDING TAX CLAIMS COULD BE OBTAINED DURING THE COMING YEAR, BUT AT THE SAME TIME SAID THEY WERE TOLD THE GOV WAS ATTEMPTING TO CLEAR UP ALL OF THE PENDING PROBLEMS BEFORE APRIL. END SUMMARY.

2. ON JANUARY 19, MR. MARION NOBLE, PRESIDENT OF SUNMARK EXPLORATION CORP, THE EXPLORATION SUBSIDIARY OF SUN OI, AND OTHER SUNMARK OFFICIALS, TOGETHER WITH SUN'S LOCAL REPRESENTATIVE, CALLED ON THE AMBASSADOR TO BRING HIM UP-TO-DATE ON THE COMPANY'S LOCAL ACTIVITIES.

3. MR. NOBEL CHARACTERIZED THEIR THREE-DAY VISIT AS THE FRIENDLIEST RECEPTION SUN HAS RECEIVED TO-DATE. HE SAID THEY HAD NEGOTIATED AND SIGNED A NEW TECHNICAL SERVICES CONTRACT WITH PALMAVEN, THEIR OPERATING COUNTERPART. BOTH COMPANIES AGREED
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IT WAS TO THEIR MUTUAL BENEFIT TO CHANGE THE NATURE OF THE CONTRACT TO ENABLE PALMAVEN TO USE THE SERVICES BEING PROVIDED ALMOST ANYWHERE IN VENEZUELA, NOT LIMITING THEM TO SUN'S FORMER CONCESSION AREAS. FURTHERMORE, IF THE PROJECTED MERGER OF PALMAVEN WITH CVP AND OTHER OPERATING COMPANIES THAKES PLACE (WHICH SEEMS VIRTUALLY CERTAIN), THE NEW COMPANY CAN TAKE OVER PALMAVEN'S SERVICE CONTRACT (SEE REFTEL.) PAYMENT UNDER

THE NEW CONTRACT WILL BE ON A FLAT FEE BASIS. NOBLE SAID SUN IS MORE COMFORTABLE WITH THIS ARRANGEMENT SINCE ITS FEE WILL NOW BE BASED ON MAN-HOURS OF SERVICES PROVIDED AND NOT DEPENDENT ON THE PRODUCTION OF THE OPERATING COMPANY. HE NOTED THAT OF THE MAJORS, ONLY SUN AND ONE OTHER (GULF) HAVE ANNOUNCED A POLICY OF SELLING SERVICES RATHER THAN SEEKING EQUITY PARTICIPATION ABROAD.

4. THE SUN OFFICIALS SAID THEY WERE TOLD BY DR. FREDDY AROCHA, VICE MINISTER OF ENERGY, THAT THE GOV WAS ATTEMPTING TO CONCLUDE ALL THREE OF THE NATIONALIZATION-RELATED ISSUES BEFORE APRIL, THAT IS, BEFORE THE ANTICIPATED VISIT OF PRESIDENT CARTER AND BEFORE THE OFFICIAL START OF THE LOCAL ELECTION CAMPAIGN. NOBLE SAID SUN SIGNED ITS ACTA FOR ASSET DEDUCTIONS IN SEPTEMBER 1977 AND HAS BEEN WAITING SINCE THEN FOR THE OTHER COMPANIES TO REACH A SETTLEMENT. WITH RESPECT TO THE VARIOUS BACK TAX CLAIMS, THEY EXPRESSED SOME DOUBTS THAT THE GOV WOULD BE ABLE TO OFFER AN ACCEPTABLE SETTLEMENT IN AN ELECTION YEAR, AND COMMENTED THAT THERE COULD BE DISADVANTAGES IF THE GOV WERE PRESSURED INTO A SETTLEMENT NOW. THEY DID REPORT, HOWEVER, THAT THE FINANCE MINISTRY HAD INCREASED THE MEMBERSHIP OF THE SPECIAL COMMISSION REVIEWING THESE CLAIMS FROM THE MEMBERSHIP OF THE SPECIAL COMMISSION REVIEWING THESE CLAIMS FROM THREE TO FIVE TO SPEED UP THE PROCESS. THEY DESCRIBED THE COMPTROLLER'S CLAIM AS THE MOST SERIOUS OF THE THREE ISSUES, BUT DID NOT EXPECT AN EARLY DECISION (SUN HAS RELATIVELY LESS AT STAKE
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THAN THE OTHER COMPANIES IN THE COMPTROLLER'S CLAIM).

5. LOOKING AHEAD, MR. NOBLE SAID THAT THE VENEZUELAN PETROLEUM INDUSTRY MAY FACE DIFFICULTIES IN THE IMMEDIATE FUTURE AS IT ATTEMPTS TO MAINTAIN CURRENT PRODUCTION LEVELS FROM THE AGEING EXISTING FIELDS AND INSTALLATIONS. THE REORGANIZATION INVOLVING SOME OF THE OPERATING COMPANIES MAY ALSO CAUSE SOME DISLOCATIONS. HE SEES A BRIGHTER FUTURE FIVE TO TEN YEARS HENCE, SAYING THERE ARE SEVERAL VERY PROMISING OFF-SHORE AREAS WHICH HAVE NEVER BEEN EXPLORED AS WELL AS SOME LAND AREAS, EXCLUDING THE ORINOCO HEAVY OIL BELT, WHICH HAVE NOT YET BEEN FULLY DEVELOPED. HE SEES LITTLE OPPORTUNITY FOR FOREIGN EQUITY PARTICIPATION, AT LEAST IN THE SHORT AND MEDIUM TERM, BUT A GROWING NEED FOR TECHNICAL SERVICES. SUN HOPES TO PROVIDE THESE SERVICES; AT PRESENT IT IS CONCENTRATING ON EXPLORATION-RELATED ACTIVITIES, E.G. SPECIALIZED DRILLING, AND EVENTUALLY EXPECTS TO ASSIST IN PROJECTS FOR THE UPGRADING OF HEAVY OIL.
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